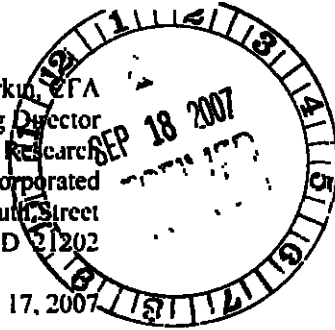


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September, 17, 2007



Honorable Vernon A. Williams
Secretary
Surface Transportation Board
Attn: STB Ex Parte No 664
395 E. Street, SW
Washington, DC 20423-0001

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RE: Methodology to be Employed in Determining the Railroad Industry's Cost of Capital. STB Ex Parte No 664

Mr. Williams

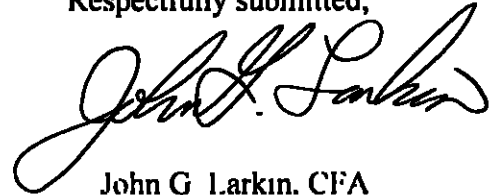
With our nation's freight transportation system on the verge of running out of the capacity necessary to keep our country functioning smoothly and our economy expanding, it is critical that changes made to the STB's revenue adequacy determination methodology be handled with caution and all due academic rigor. What we cannot afford is a process that discourages the relatively fuel-efficient and environmentally friendly railroads from investing in incremental capacity.

My sense is that the Capital Asset Pricing Model (CAPM), which I discovered while attending Harvard Business School, is the correct general methodology for establishing the railroads' cost of capital. In my mind, the question then becomes, what return on capital calculation should be employed to determine whether or not a railroad is in fact earning its cost of capital? A traditional return on invested capital (ROIC) calculation, based on accounting data, seems inadequate in that it does not adjust for the fact that many railroad assets are long-lived and currently sit on their respective balance sheets either partially or fully depreciated at cost levels that are far below today's replacement costs. It seems logical that some method should be applied to adjust the traditional ROIC calculation to account for the current replacement costs associated with the rails' long-lived assets (and, in some cases, depreciated replacement costs should be employed to account for asset "wear and tear"). In this way, returns on invested capital will be more reflective of current industry economics, and railroads will be less likely to be viewed as earning their costs of capital when in reality they are not. Incremental pricing actions could also then be more easily justified in order to boost ROIC closer to the CAPM-determined weighted average cost of capital. In effect, railroads would be permitted to expand margins and cash flow further in order to continue financing capacity expansion projects. If the ROIC calculation is not adjusted for the time value of money, especially with respect to the industry's long-lived assets, incremental pricing actions on the part of

the railroads will become increasingly difficult to justify, and incremental capacity expansion expenditures are likely to either slow dramatically or cease entirely

In summary, I encourage the STB to move forward carefully as it considers changing the method by which it determines whether railroads are revenue adequate. A change from the current methodology to some poorly designed methodology could have a detrimental impact on our nation's already capacity-constrained freight transportation infrastructure. In turn, GDP growth could suffer, our global competitiveness could be compromised, and our citizens' standard of living could be impaired. As a nation, we simply cannot afford a poorly deliberated change in the process driving railroad capital allocation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John G. Larkin". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

John G. Larkin, CFA